

Message from the President



We seek to be truly inspired, change our corporate structure, and achieve carbon neutrality by 2050.

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One Year of Continuous Self-Reflection Amid the Fight against the Pandemic

I would like to offer my sympathy to those who have suffered an infection of COVID-19 and my condolences for those who passed away. In addition, I would like to express my gratitude to all health-care workers and everyone who is working hard to keep society running.

Last year began and ended with people around the world addressing the unprecedented crisis caused by the COVID-19 pandemic. Unfortunately, even now, this fight does not appear to be nearing a conclusion.

The pandemic has been a massive shock to the global economy and precipitated a major drop in demand for petroleum products and other types of energy. For example, in fiscal 2020, domestic demand fell 6% year on year for gasoline and other petroleum products and around 50% for jet fuel. In addition, due to a decline in demand for vehicles and displays, both demand for and sales of lubricants, performance chemicals, and electronic materials decreased. Almost all of Idemitsu's businesses were impacted by the pandemic, and results were far below the targets set for the first fiscal year under the new medium-term management plan for the recently integrated company.

The pandemic will eventually end. However, the business environment surrounding us has been totally upended. We are not considering the current situation temporary, or not just waiting for the storm to pass. Rather, we view this time as a good opportunity to transform our corporate structure by thoroughly reviewing the Company's businesses, cost structure, and organizational structure.

To execute our ideas on how to change the Company going forward, we will need a compass to show our future path. We returned to our principles to reaffirm what the Company's purpose is and what social issues the Company should take on.

Codifying the Management Philosophy

We began by respectfully considering the words, the ideals underlying those words, and the values that both companies' founders and forerunners have long held dear. Each of the former companies boasted long pre-integration histories of underpinning the energy security of Japan going back more than 100 years.

At first glance, the two companies seemed to have had completely different corporate cultures. However, at their root, they shared a common value: "nurturing people through our work, contributing to society by showing infinite possibility." Encouraged by a strong desire to embody this value and codify it as the management philosophy for the newly integrated company representing the Company's purpose, many employees have promoted a project with that aim.

However, this work has been more difficult than originally imagined. The words used by each of the previous companies are familiar to the people who worked there but do not necessarily reverberate with people from the other company. However, if that is the sole reason for choosing new words, support will be lacking. In this light, we have endeavored to weave together words that represent our shared values in a way that gives due consideration to the histories of the two companies and the trails blazed by their forerunners.

We eventually arrived at this statement:

How often do we consider the countries and communities we touch, and how much empathy do we have for the people living there? Are we contemplating what's best for them and then doing our utmost to act in their interests? Each day, we must reflect on our actions; we must strive to do better not only for ourselves, but also for others. When we come together and our efforts are united, we make the impossible possible. With integrity, solidarity, and determination, we will overcome any challenge we face.

"Truly inspired" is the single phrase that best embodies this statement. If asked about Idemitsu's purpose, we can answer that it is "truly inspired." The management philosophy represents the Company's purpose and the value it provides to society and serves as the basis of judgment for every employee. Going forward, we will inscribe these words in our hearts and continue seeking to be truly inspired.

In addition, we positioned "Ningen-Soncho (Having respect for human beings)" as our overarching management principle. Just as it would not have been possible to forecast the society of today 100 years ago, it is difficult to clearly envision 2050 or 2100 while navigating the present. However, if people are open to growth, there is no doubt that employees who inherit our present intentions will forge new paths in those eras. It is for this reason that the growth of people is more important than anything else. We do not develop people as a means of increasing profit; we encourage our people to grow in the course of doing business. Going forward, we will significantly change our corporate structure with the aim of achieving carbon neutrality. My role as president is to ensure people continue growing in the Company and to

maintain a robust management foundation so that employees can confidently take on challenges even amid harsh business environments.

Formulating the 2030 Vision

We established our 2030 vision, which is the ideal we strive to achieve by 2030, as being "Your Reliable Partner for a Brighter Future." Idemitsu has grown with local communities while achieving its social mission of stably supplying the energy and materials that are essential to industry and people's lives for over 100 years. For us, global climate change and Japan's increasingly aging society are social issues that we must solve. However, abandoning our responsibility to stably supply energy and instead focus solely on carbon neutrality would be a huge mistake. Idemitsu intends to help realize a low-carbon society while fulfilling our responsibility to supply a diverse range of energy types. "Your Reliable Partner for a Brighter Future" is the expression of this idea.

Through the business domains of "energy material transition to a carbon-neutral recycling society," "next-generation mobility and community adapted to an aging society," and "advanced materials that enable the solution of these issues," we will fulfill the following three responsibilities: "Protect the Environment and Lifestyles," "Support Regional Communities," and "Provide for Society with Technological Capabilities."

Furthermore, to disseminate the Company's management philosophy and 2030 vision across the world, we have carefully crafted corresponding English phrases: "Truly Inspired" and "Your Reliable Partner for a Brighter Future." These expressions convey the Company's stated ideals to date.

Reviewing the Medium-Term Management Plan

We revised the Medium-term Management Plan, which was revealed in November 2019. As previously stated, the pandemic caused a massive drop in demand in Idemitsu's mainstay petroleum business. In addition, with countries worldwide striving to achieve a green recovery, in October 2020 the Japanese government declared a target of achieving carbon neutrality by 2050, and we assume that decarbonization efforts will accelerate even more. With petroleum being its main business, Idemitsu strives to demonstrate a high level of resilience to this kind of business environment and remain a sustainable company into the future. To this end, we need to rebuild our medium- to long-term strategies while further accelerating each initiative and measure. Based on this perspective, we revised our plan.

To realize the 2030 vision, we decided to establish and implement the following basic policies aimed at 2030: practice ROI management, evolve our business platform, and foster an open, flat,

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and agile corporate culture.

First, by practicing ROIC management, we will focus more on capital efficiency, make our balance sheet more streamlined, and aim to increase our resilience as a company amid increasing future uncertainty and large environmental changes, namely the pandemic and carbon-neutral shift.

Naturally, we use ROIC management as a method of managing our portfolio, but we also use it as performance management indicator to accurately evaluate achievements and appropriately incorporate ROIC into the KPIs of each business. In addition, our investment decisions are informed by well-researched data on the economic impact of GHG emissions while utilizing internal carbon pricing. We will continue boldly investing the cash generated from rationalization into the three business domains indicated in the 2030 vision.

The aim of this kind of portfolio management is to overhaul the structure of existing businesses, promote the transition of energy and materials, and set the entire Group on a growth trajectory.

The highlights of our portfolio overhaul are turning apollostation outlets into a smart one-stop shop and turning our refineries and complexes into CNX (carbon-neutral transformation) centers. Further details are available in other sections of this report.

The second basic policy is to evolve the business platform. Idemitsu will continue earnestly promoting digital transformation. Furthermore, we acquired DX Certification in April 2021 and were selected as a DX Stock in June 2021, solidifying our foothold. To accelerate our progress, we will continue working not only to reform in-house operations but also, turning an eye outward, to provide value to customers and ecosystem networks. In addition, regarding governance, we will adjust the composition of the Board of Directors to be smaller and better suited to solving management challenges. We will also pursue discussions focused on key issues.

The third basic policy is fostering an open, flat, and agile corporate culture. Our overarching management principle is Ningen-Soncho (Having respect for human beings). To date we have spoken of our people-centric management and the limitless energy of people and have acknowledged that the management resource most difficult to replace is people. We in top management recognize that it is our responsibility to establish and nurture a sense of a company and corporate culture where employees with diverse values are able to fully demonstrate their diverse capabilities and spark mutual creativity. Accordingly, we promote initiatives involving instilling our philosophy and vision, reforming our organization, and reforming workstyles.

We will promulgate the recently codified management philosophy and newly formulated 2030 vision throughout the Group, establish an organizational core, and enhance our resilience as an organization. In addition, we will pursue vertical and horizontal organizational reforms, actively delegate authority, optimize ranges of control, and balance employee growth and our growth as a company.

In addition, we are promoting workstyle reforms to enable

employees' diverse capabilities to be demonstrated more quickly, collaboratively, and innovatively. We have already established a system and environment that can adapt to different workstyles based on diverse values, realizing workstyles where employees can select their hours and worksite, depending on the type of work they do. Furthermore, we will continue working to regularly measure and enhance employees' philosophy and vision awareness level.

Further Promoting D&I

To realize our 2030 vision, we will continue significantly reforming our business structure in addition to fostering an open, flat, and agile corporate culture and promoting diversity and inclusion. With it still difficult to clearly envision the future given the current circumstances, it is vital that management leverages the strengths and uniqueness of its diverse members. We are working to enable diverse employees to thrive, grow, and co-create new value while sparking mutual creativity.

To this end, employee health is most important. We are promoting health management for remote workstyles and lifestyles in the new normal era. In addition, in July 2021, we opened the Life-Career Support Center to provide each employee with opportunities to consider self-directed career building and help them adapt to changes in work caused by expected structural business reforms and operational changes. We will continue setting quantitative targets regarding women's career advancement, including those related to the Act on the Promotion of Female Participation and Career Advancement in the Workplace. At the same time, we will also strive to expand our programs to support the balance of work with childcare and nursing care, leading to flexible workstyles that allow diverse human resources can thrive.

As for people with disabilities, we are working to further expand their employment and provide them with opportunities to support themselves in line with their desire to be useful to society through work and tap their full potential regardless of disability. In addition, we respect diversity, including gender identity, sexual orientation, and values, and actively work to foster an environment where each person can fully demonstrate their individual capabilities in their own way.

Environmental, Social, and Governance (ESG) Initiatives Are Management's Priorities

With regard to sustainability, Idemitsu considers ESG initiatives its highest priority. We connect our individual business activities with the targets outlined by the sustainable development goals (SDGs) and strive to clarify our material issues. In particular, we take the lead on the challenge of SDG 7 "ensure access to affordable, reliable, sustainable and modern energy for all" and strive to think things through, work hard, and work together to make the impossible possible.



Environmental

We work to proactively reduce CO₂ emissions while fulfilling our responsibility to stably supply energy. Going forward, we will further promote energy-saving activities at our refineries and complexes and work to reduce emissions through business activities, for example, by offering eco-friendly products and services and expanding renewable energy generation. We have raised our CO₂ reduction target for 2030 from two million tons to four million tons and aim to achieve net zero CO₂ emissions from our operations by 2050. In addition, we will keep working to reduce CO₂ emissions throughout the entire value chain. Furthermore, we support the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and disclose climate change-related governance, strategies, risks and management as well as indicators and targets.

Social

We formulated the Sustainable Procurement Guidelines last year with the aim of contributing to the realization of a sustainable society throughout the supply chain. In addition, Idemitsu is engaged in business around the world and recognizes that respect for human rights is a material issue forming the foundation of business. In fiscal 2020, we launched initiatives for human rights due diligence and identified where human rights risks are for affiliate companies in Japan and overseas. In fiscal 2021, we will compile a portfolio of measures to address identified risks and are steadily carried out those measures.

In addition, issues of safety assurance and quality assurance are naturally central to the coexistence of energy businesses and society. We have thus set targets for achieving zero accidents,

maintaining safe and secure operations at refineries and complexes, enhancing safety assurance, and fostering a culture of safety.

Governance

We are working to further enhance the Board of Directors, which is essential to corporate governance. We hold discussions and identify areas needing improvement so that effectiveness evaluations of the Board of Directors do not become just superficial and formulaic. For example, we revised agenda briefings to emphasize pre-meeting briefings so that the time slated for Board of Directors meetings is adequate for substantive discussions. In addition, we hold Outside Director meetings once each quarter to allow Outside Directors to exchange opinions. At least one-third of Idemitsu's Board of Directors comprises Independent Outside Directors. Regarding the selection of members, we have clarified the knowledge, experience, and capabilities required using a skills and career matrix. From the perspective of diversity, we increased the number of female directors from one to two. The Nomination and Compensation Advisory Committee, which comprises Independent Outside Directors, deliberates the succession plan of the CEO, the selection and dismissal of the CEO and Directors, and the compensation of Directors. The committee has adopted a mechanism to report to the Board of Directors. Regarding performance-linked bonuses for the Representative Directors, we revised the bonuses so that they reflect company-wide non-financial achievements, including ESG, and not just financial indicators.

Message to Stakeholders

This year is the third year since Idemitsu integrated with Showa Shell Sekiyu in April 2019. Turning our attention to the Company's business environment, the medium- to long-term decline in petroleum demand in Japan and globally significant climate change issues are having major impacts on the sustainability of the Company's businesses. Based on the recently codified management philosophy encapsulated in the phrase "truly inspired," all employees will work together to overcome these challenges and realize the 2030 vision of being "Your Reliable Partner for a Brighter Future." By creating a resilient corporate structure that can flexibly and nimbly respond to any environmental change, we will strive to fulfill our social mission as an energy company going forward. In this endeavor, the cooperation of all our stakeholders will be indispensable to creating new value and fulfilling our social mission.

We will continue working to bring together the power of people to create new value in collaboration with all our global customers, regional communities where we operate, local agencies, logistics and safety affiliates, business partners (including suppliers in Japan and overseas, such as oil-producing countries), and employees with diverse backgrounds. Thank you for your continued support.